HOUSING MARKET INFORMATION

HOUSING NOW

Canada

Canada Mortgage and Housing Corporation

Date Released: November 2008

Canadian Market Overview.

New Home Market

Housing starts remained strong in October

The seasonally adjusted annual rate[1] of housing starts was 211,800 units in October, down from 218,600 units in September.

Housing starts remained strong in October and are consistent with CMHC's new home construction forecast for 2008. The slight decrease in housing starts is the result of declines in both single-detached and multiple starts in October.

Table of contents

Canadian Market Overview 1
Homeowners have accumulated significant equity in their homes. . 4
Starts Statistics 7

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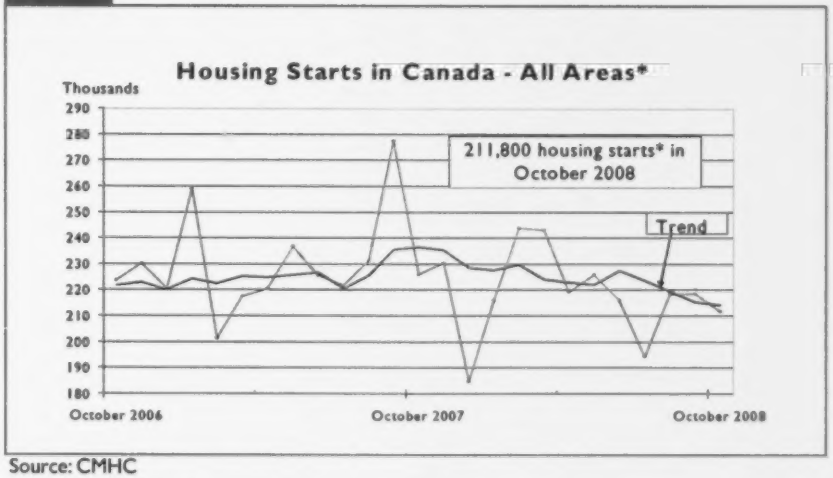
Figure 1



Source: CMHC

* Seasonally adjusted at annual rates
Monthly housing starts numbers published in Housing Now Canada are final and may differ from the preliminary numbers in the starts press release

! All starts figures, other than actual starts, are seasonally adjusted annual rates (SAAR) that are monthly figures adjusted to remove normal seasonal variation and multiplied by 12 to reflect annual levels.

Canada

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Urban multiple starts eased in October

The seasonally adjusted annual rate of urban starts eased 4.2 per cent in October, compared to September. Urban multiples eased in October by 6.0 per cent to 115,300 units. Urban single starts decreased 1.1 per cent to 69,300 units in October compared to September.

Urban starts increase in Quebec and Atlantic Canada

October's seasonally adjusted annual rate of urban starts moderated in three out of the five regions of Canada. Urban starts increased to 41,300 units in the Quebec region and to 9,600 units in Atlantic Canada. On the other hand, urban starts declined to 27,900 units in British Columbia, 26,900 units in the Prairies, and 78,900 units in Ontario. Single urban starts decreased in all regions in October, with the exception of Ontario, where they increased by 10.1 per cent.

Year-to date actual starts were down in October

For the first ten months of 2008, actual starts in rural and urban areas combined were down an estimated 5.5 per cent, compared to the same period last year. Year-to-date actual starts in urban areas have decreased by an estimated 1.3 per cent over the same period in 2007. Actual urban single starts for the January to October period of this year were 16.3 per cent lower than they were a year earlier while urban multiple starts were up by 11.6 per cent over the same period.

Growth in new house prices continues to moderate

The New Housing Price Index (NHPI) increased by 2.1 per cent in September 2008 compared to a year ago. September marks the 8th consecutive month this year in which the rate of increase in the NHPI has decelerated.

In September 2008, year-over-year double digit increases in the NHPI were limited to Regina (22.7 per cent) and St John's (22.7 per cent). New house prices were up for all the surveyed centres, except for Edmonton and Calgary where prices declined 5.8 per cent and 1.2 per cent, respectively, between September 2007 and September 2008.

Existing Home Market

MLS®[1] sales decreased while listings increased in October

Seasonally adjusted MLS® (Multiple Listing Service®) sales in Canada's major markets[2] decreased by 15.7 per cent to 21,091 units in October 2008, compared to 25,030 units in September 2008.

Seasonally adjusted MLS® new listings in Canada's major markets increased 0.7 per cent to 49,234 units in October 2008 compared to 48,873 units in the previous month.

Sales-to-new-listings ratio declines in October

An indicator of price pressure in the existing home market is the sales-to-new-listings ratio[3]. New listings are a gauge of the supply of existing homes, while MLS® sales are a proxy for demand.

Canada's existing home market has been in sellers' territory throughout most of this decade. Lately, a declining sales-to-new-

[1]Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association

[2]The MLS® Major Markets include the following: Calgary, Edmonton, Halifax-Dartmouth, Hamilton-Burlington, Kitchener-Waterloo, London & St. Thomas, Mauricie & Trois-Rivières, Montréal, Ottawa-Carleton, Outaouais, Québec City, Regina, Saguenay-Lac St. Jean, Saint John, Saskatoon, St. Catharines District, St. John's, Sudbury, Thunder Bay, Toronto, Greater Vancouver, Victoria, Windsor and Winnipeg.

[3] Taking the Canadian MLS® Major Markets as a whole, a sales-to-new-listings ratio below 40 per cent has historically accompanied prices that are rising at a rate that is less than inflation, a situation known as a buyers' market. A sales-to-new-listings ratio above 55 per cent is associated with a sellers' market. In a sellers' market, home prices generally rise more rapidly than overall inflation. When the sales-to-new- listings ratio is between these thresholds, the market is said to be balanced.

listings ratio and slowing price growth indicate existing home markets have become more balanced. The seasonally adjusted sales-to-new-listings ratio for Canada's major markets was 43 per cent in October 2008, a decrease from 51 per cent September 2008.

The October seasonally adjusted average MLS® price in Canada's major markets was down 4.5 per cent to $304,861 compared to September 2008, while the unadjusted MLS® average price was down 10.9 per cent in October 2008 compared to a year ago.

Economic conditions

Employment increased by 9,500 jobs in October maintaining Canada's employment rate at 63.7 per cent. The labour force also moved higher in October by 29,900 people, which resulted in Canada's unemployment rate rising to 6.2 per cent.

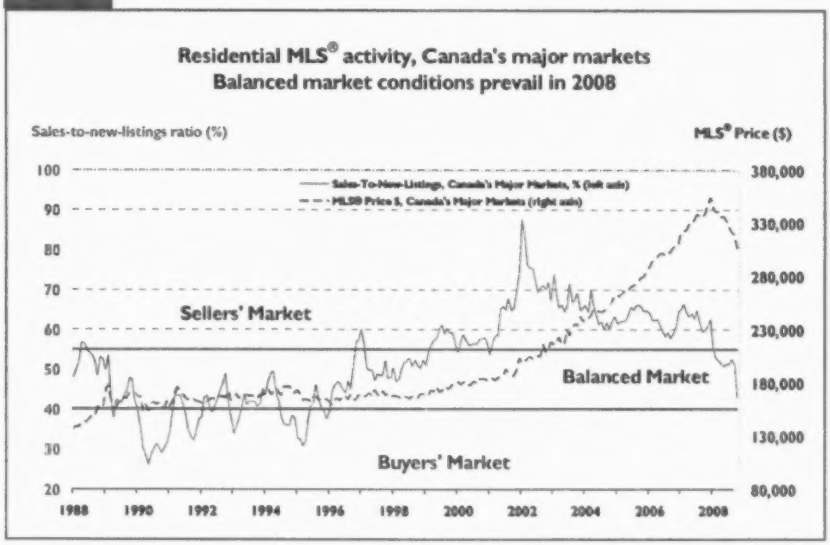
Month-over-month seasonally adjusted employment increased in seven provinces between September and October. Only British Columbia, Ontario and PEI registered fewer jobs. The largest increases in employment were seen in Alberta (14,700 jobs), Newfoundland (1,900 jobs), New Brunswick (2,200 jobs) and Nova Scotia (1,800 jobs).

For the 12-month period ending in October 2008, seasonally adjusted employment in Canada expanded by 1.3 per cent (223,300 jobs). Part-time employment grew by 3.2 per cent while full time employment increased 0.9 per cent.

The Bank of Canada, like other major central banks, has cut its policy interest rates. On October 21st, Bank of Canada lowered the overnight rate target by 0.25 of a percentage point to 2.25 per cent. It was the second consecutive decrease of the overnight rate in less than two weeks. The global financial turmoil pushed the central banks to ease global monetary conditions. The Bank of Canada's next interest rate policy announcement is scheduled for December 9th.

The Consumer Price Index (CPI) increased by 2.6 per cent in October 2008 compared to the same month in 2007, a significant decrease from the 3.4 per cent increase recorded for the 12-month period ending in September of this year. The decline in the CPI's rate of growth was mainly due to a softening in gasoline prices.

Figure 2



Data are seasonally adjusted and annualized, and cover Canada's major markets
Sources: CMHC, Canadian Real Estate Association (CREA), MLS®

Homeowners have accumulated significant equity in their homes

Prudent banking practices in Canada have resulted in high quality credit and a low level of mortgage arrears. Given the low mortgage rate environment and the considerable amount of equity Canadians have now built in their homes, mortgage arrears are likely to remain manageable.

Prudent banking practices have resulted in high quality credit in Canada. As a result, the share of mortgages in arrears by three or more months is near its lowest level since 1990. Mortgage arrears climbed during the 1990 recession due to a combination of job losses and rising interest and mortgage rates. Heading into both the 1981-82 and the 1990 recessions, central banks were combating high inflation by increasing interest rates, which in turn caused the economy to contract.

The current situation is different; Canada has enjoyed an economic expansion that has lasted almost 20 years, and inflation has not been problematic, so there is no need for aggressive hikes in interest rates. In fact the opposite has happened. On October 8th the Bank of Canada and many of its counterparts including the U.S. federal reserve cut policy interest rates by 50 basis points. On the 21st of October 2008, the Bank of Canada cut its policy rate by an additional 25 bps. In total, the Bank of Canada has cut the target for the overnight rate by 225 basis points since December 2007 thereby injecting monetary stimulus into the Canadian economy. Low interest rates and mortgage rates should help to keep the rate of mortgages in arrears stable.

Canadian homeowners have built up a considerable amount of equity

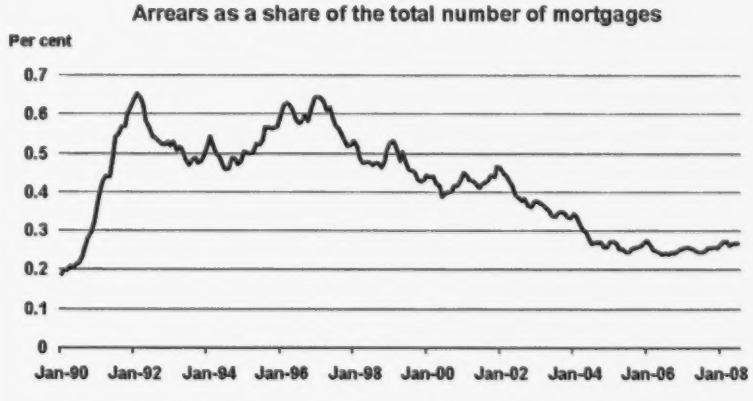
We estimated the accumulation of home equity, as of December 2007, for households that bought a home between January 2003 and December 2007 (see figure 4). Considerable equity that homeowners built over this period comes from making regular mortgage payments and from rising home values. Indeed, the average MLS price increased at an average annual rate of about 10 per cent between 2003 and 2007.

To calculate the accumulation of equity due to making mortgage payments, we assume a 5 per cent downpayment, a 25-year amortization, and that the home was purchased at the average MLS price in the month of purchase. The accumulation of equity due to rising home values is estimated using the actual movements in average MLS prices between the month the home was purchased and the average MLS price in December 2007.

Obviously, households that bought earlier in the 2003 to 2007 period have accumulated more equity than those who purchased later in that period. This simply reflects the fact that by December 2007, households that purchased in 2003 have made more mortgage payments and benefited from the rise in home values for a longer period of time compared to

Figure 3

The share of mortgages in arrears is near its most moderate level since 1990



Sources: Canadian Bankers Association

households that purchased a home in 2007. The equity that homeowners build up over time helps keep the rate of mortgage arrears low.

Figure 5 shows the estimated distribution of home equity, as of December 2007, for households that bought a home between January 2003 and December 2007. The distribution is weighted by actual monthly MLS sales over the January 2003 to December 2007 period. We estimate that nearly 1 in 5 of these households had 40% or more equity in their homes as of December 2007 and nearly 1 in 4 of these households had between 30% and 40%.

This distribution of equity assumes that a minimal downpayment of 5 per cent is made. Actually, many homeowners make larger downpayments, particularly if they are move-up buyers. Furthermore, the distribution only looks at homeowners that bought between January 2003 and December 2007. Many Canadians have owned their home for a longer period of time than the period being examined. Finally, many Canadian homeowners are mortgage free. As a result, this estimated distribution of equity for households that bought a home between January 2003 and December 2007 underestimates the true equity distribution of all Canadian homeowners. Nevertheless, even with this conservative estimate, more than 83 per cent of homeowners had more than 10 per cent equity in their homes. These are households that bought prior to May 2007. These higher equity households are less likely to see their mortgages fall into arrears.

Price growth has been strong in recent years in B.C. and the Prairie provinces. The strong growth in prices has resulted in a significant build up in equity. We estimate that, in B.C. and the Prairies, about 58% of those

Figure 4

Homeowners have accumulated equity in their homes

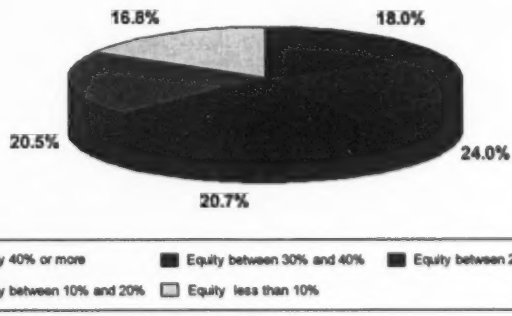
Sources: CMHC, CREA, and Statistics Canada

Figure 5

Equity buildup is significant

Equity as of December 2007 of households who bought a home between 2003 and 2007

Canada



Sources: CMHC, CREA, and Statistics Canada

who bought a home between January 2003 and December 2007 had at least 30% equity in their homes.

Home buyers who have owned their homes for a longer period of time tend to have more equity than households who have recently purchased. As a result of strong sales activity and equity appreciation, over half of Prairie homeowners are estimated to have more than 40% equity in their homes (in the Prairies, 52.2% of homeowners have more than 40% equity, compared to 18.0% for Canada).

Price growth in Ontario, Quebec and the Atlantic has not been as strong as in the Prairies and B.C. As a result, there is a smaller share of homeowners in these regions that are estimated to have 30% or more equity in their home as of December 2007.

In Ontario and Quebec, however, a much smaller share of households have more than 30% equity as of December 2007 (32.6% and 31.9%, respectively compared to 42.0% for Canada). However, these regions also have a significantly smaller share of households with less than 10% equity compared to the rest of the country.

The record level of MLS sales in Atlantic Canada in 2007 explains why there is a relatively smaller share of homeowners that have more than 30% equity in their homes (in the Atlantic provinces we estimate that 16.0% of these homeowners have more than 30% equity, compared to 42% for Canada).

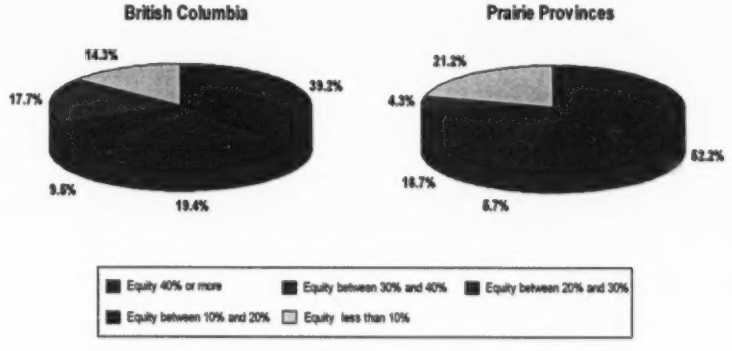
Conclusion

High quality credit and prudent lending practices have resulted in a low level of mortgage arrears in Canada. Given homeowners' strong equity position and low interest rate environment, the rate of arrears is expected to remain manageable.

Figure 6

The strongest accumulation of equity was in Western Canada where homes appreciated more rapidly

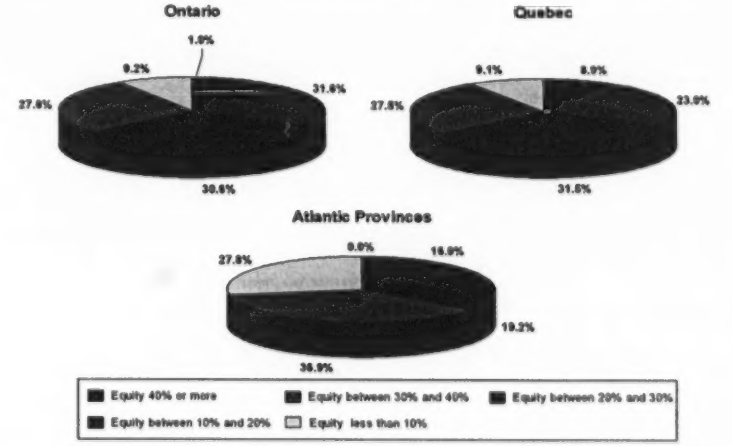
Equity as of December 2007 of households who bought a home between 2003 and 2007



Sources: CMHC, CREA, and Statistics Canada

Figure 7

Homeowners in Ontario, Quebec, and the Atlantic Provinces have also built considerable equity in their homes



Sources: CMHC, CREA, and Statistics Canada

This Month's Housing Data (SAAR)

	2007	Q1: 08	Q2: 08	Q3: 08	M08: 08	M09: 08	M10: 08
Housing starts, units, 000s							
Canada. Total. All areas	228.3	234.4	220.1	210.4	218.4	218.6	211.8
Per cent change from previous period	0.4	9.5	-6.1	-4.4	12.3	0.1	-3.1
Canada. Total. Rural areas	34.6	21.4	26.4	25.9	25.9	25.9	27.2
Per cent change from previous period	6.9	-35.7	23.4	-1.9	0.0	0.0	5.0
Canada. Total. Urban areas	193.7	213.0	193.7	184.5	192.5	192.7	184.6
Per cent change from previous period	-0.7	17.9	-9.1	-4.7	14.2	0.1	-4.2
Canada. Single. Urban areas	90.9	81.9	77.2	73.6	76.3	70.1	69.3
Per cent change from previous period	-3.5	-9.5	-5.7	-4.7	2.1	-8.1	-1.1
Canada. Multiple. Urban areas	102.9	131.1	116.5	110.9	116.2	122.6	115.3
Per cent change from previous period	2.0	45.3	-11.1	-4.8	23.9	5.5	-6.0
Newfoundland. Total. All areas	2.6	2.8	3.0	3.3	3.8	3.2	3.1
Per cent change from previous period	18.6	-6.7	7.1	10.0	31.0	-15.8	-3.1
Prince Edward Island. Total. All areas	0.8	0.7	0.7	0.6	0.8	0.5	0.6
Per cent change from previous period	1.6	-12.5	0.0	-14.3	33.3	-37.5	20.0
Nova Scotia. Total. All areas	4.8	5.9	3.9	4.2	3.4	4.4	4.3
Per cent change from previous period	-3.0	25.5	-33.9	7.7	-27.7	29.4	-2.3
New Brunswick. Total. All areas	4.2	4.4	4.6	4.2	3.7	4.5	5.0
Per cent change from previous period	3.8	7.3	4.5	-8.7	-17.8	21.6	11.1
Quebec. Total. All areas	48.6	48.4	48.0	47.5	46.5	46.5	48.4
Per cent change from previous period	1.4	20.1	-0.8	-1.0	-5.9	0.0	4.1
Ontario. Total. All areas	68.1	78.7	78.6	75.8	90.2	84.5	82.6
Per cent change from previous period	-7.2	21.6	-0.1	-3.6	70.8	-6.3	-2.2
Manitoba. Total. All areas	5.7	5.4	6.0	5.5	5.6	5.5	5.8
Per cent change from previous period	14.1	-1.8	11.1	-8.3	0.0	-1.8	5.5
Saskatchewan. Total. All areas	6.0	6.8	8.2	7.3	6.3	7.4	4.9
Per cent change from previous period	61.7	21.4	20.6	-11.0	-25.0	17.5	-33.8
Alberta. Total. All areas	48.3	41.9	29.4	25.8	23.7	24.6	24.7
Per cent change from previous period	-1.3	-2.6	-29.8	-12.2	-18.0	3.8	0.4
British Columbia. Total. All areas	39.2	39.4	37.7	36.2	34.4	37.5	32.3
Per cent change from previous period	7.6	-6.9	-4.3	-4.0	-6.0	9.0	-13.9

SOURCE: CMHC, Starts and Completions Survey. All data are seasonally adjusted and annualized. This seasonally adjusted data goes through stages of revision at different times through the yearly cycle resulting in finalization of preliminary data. These revisions take place at the end of each month, quarter and year.

This Month's Housing Data, continued (SAAR)*

	2007	Q1: 08	Q2: 08	Q3: 08	M08: 08	M09: 08	M10: 08
Canada. Total. Urban areas	193.7	213.0	193.7	184.5	192.5	192.7	184.6
Newfoundland. Total. Urban areas	1.8	2.3	1.9	2.4	2.9	2.3	2.4
Prince Edward Island. Total. Urban areas	0.5	0.5	0.5	0.4	0.6	0.3	0.5
Nova Scotia. Total. Urban areas	3.3	4.9	3.1	3.4	2.6	3.6	2.9
New Brunswick. Total. Urban areas	3.0	3.0	3.3	3.0	2.5	3.3	3.8
Quebec. Total. Urban areas	40.9	43.5	41.8	40.5	39.5	39.5	41.3
Ontario. Total. Urban areas	62.8	75.9	74.7	72.2	86.6	80.9	78.9
Manitoba. Total. Urban areas	3.8	3.1	4.1	3.6	3.7	3.6	3.8
Saskatchewan. Total. Urban areas	4.8	5.0	5.7	4.6	3.6	4.7	2.2
Alberta. Total. Urban areas	38.5	37.9	25.0	21.9	19.8	20.7	20.9
British Columbia. Total. Urban areas	34.4	36.9	33.6	32.5	30.7	33.8	27.9

* Thousands of units, quarterly and monthly data are seasonally adjusted and annualized.

This Month's Major Housing Indicators

	2007	Q1: 08	Q2: 08	Q3: 08	M08: 08	M09: 08	M10: 08
New Housing							
New & unoccupied singles & semis, units 000s	6.0	6.8	7.3	7.6	7.6	8.0	8.3
Per cent change from same period previous year	16.1	10.0	19.9	38.4	37.4	41.9	37.7
New & unoccupied row & apartments, units 000s	8.6	9.3	8.9	9.1	9.0	9.3	10.0
Per cent change from same period previous year	3.0	7.3	12.3	4.6	3.0	6.1	9.1
New House Price Index, 1997=100	153.0	158.0	158.4	158.6	158.6	158.7	n.a.
Per cent change from same period previous year	7.7	6.3	4.3	2.3	2.3	2.1	n.a.
Existing Housing							
MLS® resales*, units 000s	523.9	473.0	464.7	455.6	445.8	447.2	384.6
Per cent change from same period previous year	7.8	-10.5	-13.5	-13.1	-14.3	-11.2	-24.6
MLS® average resale price, $C 000s**	305.8	314.0	309.1	298.4	296.4	295.6	283.0
Per cent change from same period previous year	10.8	6.7	1.9	-3.2	-3.4	-4.3	-9.2
Mortgage Market							
Posted 1-Year Mortgage Rate, % (period average)	6.90	7.25	6.68	6.75	6.65	6.65	6.35
Posted 5-Year Mortgage Rate, % (period average)	7.07	7.29	6.93	6.95	6.85	6.85	7.20

SOURCES: CMHC, Statistics Canada, Bank of Canada, The Canadian Real Estate Association.
n.a. Figures not available
* Quarterly and monthly data are seasonally adjusted and annualized (SAAR).
** Annual data is actual. Monthly and quarterly data is seasonally adjusted.

CMHC—HOME TO CANADIANS

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